

Message Text

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51

ACTION EUR-25

INFO OCT-01 EA-11 NEA-10 ISO-00 AID-20 CEA-02 CIAE-00

COME-00 EB-11 FRB-02 INR-10 IO-14 NSAE-00 RSC-01

OPIC-12 SPC-03 TRSE-00 CIEP-02 LAB-06 SIL-01 OMB-01

SS-20 NSC-10 INT-08 SCEM-02 SCI-06 L-03 H-03 DRC-01

/185 W

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FM AMEMBASSY PARIS

TO SECSTATE WASHDC 4025

INFO AMEMBASSY BONN

EC BRUSSELS 8636

AMEMBASSY THE HAGUE

AMEMBASSY LONDON

AMEMBASSY ROME

AMEMBASSY TOKYO

AMEMBASSY BEIRUT

AMEMBASSY CAIRO

AMEMBASSY JIDDA

AMEMBASSY KUWAIT

C O N F I D E N T I A L PARIS 26903

E.9. 11652: GDS

TAGS: ENGR, FR, OECD

SUBJECT: GOF VIEWS ON CURRENT OECD AND MID EAST DEVELOPMENTS

1. AMBASSADOR AKINS AND I HAD OPPORTUNITY OCTOBER 13 FOR LONG AND BROAD-RANGING DISCUSSION WITH BUNET AND CABOUAT OF FONMIN AND VAILLAUD OF MINISTRY INDUSTRY ON CURRENT AND POSSIBLE PETROLEUM SUPPLY PROBLEMS. FRENCH OFFICIALS SEEMED RESIGNED TO PRICE INCREASES ALONG LINES OF OPEC DEMANDS, CONCERNED AT POSSIBILITY OF SUPPLY SHORTAGES OVER BOTH SHORT AND LONG-TERM, AND DISTURBED THAT OIL CONSUMING GOVERNMENTS HAD NOT--AT THIS MOMENT OF POTENTIAL CRISIS--BEEN ABLE TO MOVE FURTHER TOWARD IMMEDIATE SHARING AGREEMENT.

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2. ON OECD SHARING AGREEMENT, GOF OFFICIALS EXPRESSED DISAPPOINTMENT THAT GREATER PROGRESS NOT MADE ON CENTRAL QUESTION OF DETERMINING MANNER IN WHICH SUPPLIES TO BE SHARED, AND THAT CURRENT NEGOTIATING TIMETABLE RULES OUT AGREEMENT BEFORE LATE NOVEMBER. WITH OVER ONE MILLION B/D ALREADY CLOSED OFF DUE TO MID EAST WAR AND THREAT THAT FURTHER SUPPLIES COULD BE LOST ANY DAY, THEY SAID, IT ESSENTIAL THAT CONSUMERS PUT THEIR HOUSE IN ORDER IN SHORTEST POSSIBLE TIME. THEY SEEMED PUZZLED BY APPARENT USG LACK OF URGENCY, WHICH THEY HAVE INTERPRETED AS USG DISINTEREST IN SHARING AGREEMENT. VAILLAUD POINTED OUT THAT AGREED TRIGGER MECHANISM WOULD PROTECT US FULLY IN EVENT OF POLITICAL ANTI-AMERICAN BOYCOTT, AND THAT US WOULD APPEAR TO HAVE MOST TO GAIN BY IMMEDIATE SHARING AGREEMENT. BRUNET NOTED THAT OIL CONSUMERS MAY NOT BE ABLE TO AFFECT PRODUCERS' ACTIONS IN SHORT RUN, BUT DID HAVE SOME ABILITY TO INFLUENCE EVENTS OVER LONGER RUN THROUGH ACTIONS THEY COULD AND MUST TAKE JOINTLY. AKINS AND IS AGREED THAT CONCLUSION OF EARLY AND MUTUALLY SATISFACTORY AGREEMENT WAS DESIRABLE TO AVOID POTENTIAL FOR DIVISIVENESS BETWEEN US, EUROPE, AND JAPAN ON ENERGY ISSUE.

3. SPEAKING OF CURRENT OPEC PRICE DEMANDS, BRUNET SAID THAT GOF WAS PERTURBED AT SIZE OF INCREASE DEMANDED BUT WAS UNABLE TO SEE HOW--SHORT OF EFFECTIVE CONSUMER COOPERATION, WHICH WAS CLEARLY NOT YET IN SIGHT--CONSUMERS HAD ANY CHOICE BUT TO ACQUIESCE. VAILLAUD NOTED THAT OIL PRICES HAD STILL NOT MOVED UP AS FAR AS OTHER PRICES; IN THE FRG, FOR EXAMPLE, REVALUATIONS ACTUALLY MADE OIL PRICES LOWER THAN LAST YEAR. HOW, HE ASKED, COULD AN AGREEMENT BE REACHED THIS TIME WHICH MIGHT HAVE SOME CHOICE OF STANDING UP: SHOULD COMPANIES SEEK TO REACH AGREEMENT OR HAVE PRICES IMPOSED ON THEM? AMBASSADOR AKINS SAID THERE WAS LITTLE DIFFERENCE IN PRACTICAL EFFECT AS AGREEMENTS WERE NOT HOLDING UP IN ANY EVENT. HOWEVER, THIS WAS LEGAL ASPECT FOR COMAPNIES TO CONSIDER. WHAT WAS MOST DISTURBING ABOUT PRICE INCREASE DEMANDED WAS THAT IT WOULD GIVE SAUDIS SUCH GREAT INCOME--PERHAPS AS MUCH AS DOLLARS 12 BILLION NEXT YEAR--THAT THE POSSIBILITIES FOR PRODUCTION CUTBACKS WOULD BE EVEN GREATER THAN PREVIOUSLY.

COMMENT: FROM LIMITED PERSPECTIVE OF EMBASSY, SUCCESSFUL NEGOTIATION OF SHARING AGREEMENT APPEARS BECOMING TOUCHSTONE OF CONSUMERS' EFFORTS TO PROTECT SELVES IN RAPIDLY CHANGING
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OIL SCENE. IN PRESENT CRISIS, THEIR VIEW THAT WE HAVE CHANGED IN LAST FEW MONTHS TO DELIBERATE NEGOTIATING TACTICS CREATES DANGER OF OUR BEING MISUNDERSTOOD BY GOVERNMENTS WHOSE COOPERATION WE SEEK, PARTICULARLY AS WE SEEM TO HAVE MOST TO GAIN FROM SHARING IN EVEN OF ARAB BOYCOTT. FRENCH, JAPANESE AND OTHERS APPEAR TO BE JUDGING OUR ACTIONS CAREFULLY AND MIGHT WELL BE PREPARED TO MOVE ON THEIR OWN IF CONSUMER COOPERATION STARTS TO UNRAVEL BEFORE ESSENTIAL FIRST

KNOT OF SHARING AGREEMENT IS TIED. THERE WOULD THEN BE
POTENTIAL FOR DIVISIVENESS BETWEEN US, EUROPE, AND JAPAN ON
THIS ISSUE. WHILE I RECOGNIZE NO SHARING FORMULA CAN BE
TOTALLY SATISFACTORY TO US, AGAIN FROM OUR LIMITED PARISIAN
PERSPECTIVE, I BELIEVE IT DESIRABLE THAT ONE BE REACHED SOONER
THAN LATER AND THAT OUR NEGOTIATING TIMETABLE TO THAT END BE
ACCELERATED.

IRWIN

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